

Strong performance but expensive valuations...

Solar Industries (SIL) reported a commendable performance in Q3FY21 led by strong performance in exports & overseas business and housing infra segments. Revenue for the quarter was at ₹ 645.9 crore, up 15.1% YoY. Explosives volume stayed flat YoY at 86265 MT. Further, realisation also remained flat at ₹ 32304 crore. Overall explosives segment posted a revenue of ₹ 279 crore. Accessories segment registered an improvement of 24% YoY to ₹ 92 crore. Defence segment revenue came in at ₹ 22.92 crore, down 11% YoY. Defence segment revenue came in at ₹ 22.92 crore, down 11% YoY. Overall contribution of sales improved in exports & housing infra segments Gross margins contracted ~84 bps YoY on account of higher input costs. EBITDA came in at ₹ 132.2 crore, up 16.7 % YoY with a margin of 20.5% vs. 20.2% YoY. PAT (post minority interest) was at ₹ 78 crore in Q3FY21 vs. ₹ 61.98 crore in Q3FY20.

Overseas & exports getting fired up...

Overall improvement in performance from subsidiaries has helped SIL post a strong comeback. Performance from Ghana, Tanzania & Turkey was much better YoY as well as sequentially. Further, Australia operations are expected to get kickstarted in the next few months while breakeven there should be achieved post a year from commencement. On a broader horizon, expansion in Indonesia, West Africa, SEA & European markets should provide significant growth opportunities for SIL. The management expects ₹ 1000 crore revenue from overseas business in FY22E.

Greenfield capex for packaged explosives...

SIL is planning a significant expansion for increasing their packaged explosives manufacturing capacity. The company is expected to set up three greenfield packaged explosives plants, thereby bettering their geographical reach as well their capacity. The capex will be largely through internal accruals while maintaining debt/equity below 0.5.

Defence performance to improve...

Defence segment disappointed in Q3 led by 11% decline in revenue at an already lower base. This was largely attributable to deferral of supplies by customers. Nevertheless, SIL is expecting to receive full production clearance for hand grenade and the management is confident of executing the same in the next two years. We build in defence revenue to the tune of ₹ 231 crore and 289 crore for FY22E & FY23E, respectively.

Valuation & Outlook

A formidable recovery in Q3 coupled with better demand from user industries is expected to bode well for SIL in the medium term. However, valuations are still on the higher side. We build in revenue, EBITDA & PAT CAGR of 13.1%, 16.4% & 10.3%, respectively, for FY20-23E. We value the company at 30x FY23E EPS of ₹ 39.7 to arrive at a target price of ₹ 1190 (earlier ₹ 995). We maintain **HOLD** rating.

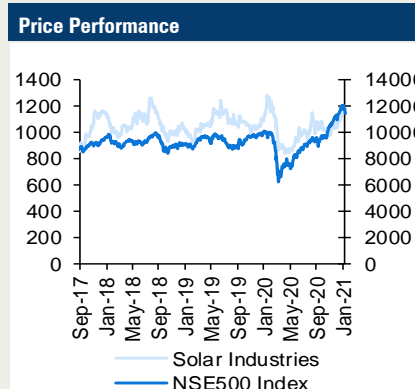
Key Financial Summary

	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenue	2,461.6	2,237.3	2,486.2	2,847.3	3,232.7	13.1%
EBITDA	501.9	434.3	499.7	589.4	685.3	16.4%
EBITDA margin (%)	20.4	19.4	20.1	20.7	21.2	
Net Profit	267.7	267.4	267.6	301.8	359.2	10.3%
EPS (₹)	29.6	29.6	29.6	33.3	39.7	
P/E (x)	42.1	42.1	42.1	37.3	31.4	
EV/EBITDA (x)	23.2	27.1	23.4	19.8	17.0	
RoCE (%)	23.8	17.7	18.6	20.3	22.0	
RoE (%)	21.6	19.4	17.8	18.2	19.2	

Source: ICICI Direct Research, Company



Particulars	
Stock Data	Amount
Market Capitalization	₹11266 Crore
Debt (FY 20)	₹619.2 Crore
Cash and Inv (FY 20)	₹120.1 Crore
EV (FY 20)	₹11765 Crore
52 week H/L (BSE)	1276 / 772
Equity capital	₹18.1 Crore
Face value	₹2



Key risk to our call

- Supply chain issues impacting availability and prices of ammonium nitrate
- Better than expected performance in overseas subsidiaries leading to earlier than expected break-even

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Revenues	645.9	561.1	15.1	587.3	10.0	Better performance from Overseas & Exports, Housing Infra
Raw materials costs	351.6	300.8	16.9	288.7	21.8	Supply chain issues faced by the company
Employees Cost	59.5	49.4	20.4	56.0	6.1	
Other Expenses	102.5	97.6	5.0	116.6	-12.1	
Total Expenditure	513.6	447.8	14.7	461.4	11.3	
EBITDA	132.2	113.3	16.7	125.9	5.1	
EBITDA margins (%)	20.5	20.2	28 bps	21.4	-96 bps	Sustained margins on a YoY basis
Depreciation	24.4	22.0	10.6	23.9	2.1	
EBIT	107.9	91.3	18.2	102.0	5.7	
Interest	10.9	14.1	-22.5	11.7	-6.3	
Other Income	13.2	9.4	40.6	1.9	607.5	
Extra Ordinary Item	0.0	0.0		0.0	0.0	
PBT	110.2	86.6	27.2	92.2	19.5	
Total Tax	28.7	21.6	33.4	24.6	16.8	
PAT(after MI)	78.0	62.0	25.9	65.2	19.7	Better profitability led by all round performance
Key Metrics						
	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	
Ind. explosives volume (MT)	86,265	86,386	-0.1	69,194	24.7	Volumes remain muted YoY
Realisation (₹/MT)	32,304	32,203	0.3	32,074	0.7	Realisation flat YoY
Value (₹crore)	279	278	0.2	222	25.6	
Initiating Systems (₹crore)	92	74	24.3	61	50.8	Better than expected performance from initiating systems
Exports & Overseas (₹crore)	280	222	26.5	266	5.4	Strong performance across geographies
Defence (₹crore)	23	26	-11.1	57	-59.7	Defence dissapoints

Source: Company, ICICI Direct Research

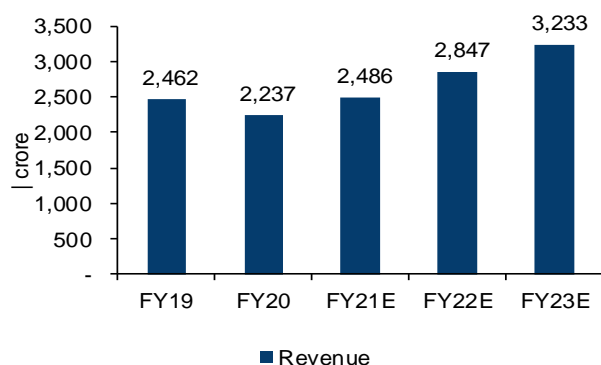
Exhibit 2: Change in estimates

	FY19	FY20	FY21E	FY22E			
(₹Crore)	Actual	Actual	Old	New	Old	New	% Change
Revenue	2,462	2,237	2,431	2,486	2,912	2,847	-2
EBITDA	502	434	506	500	620	589	-5
EBITDA Margin (%)	20.4	19.4	20.8	20.1	21.3	20.7	-60 bps
PAT	267.7	267.4	252.4	267.6	321.5	301.8	-6.1
EPS (₹)	29.6	29.6	27.9	29.6	35.5	33.3	-6.1

Source: Company, ICICI Direct Research

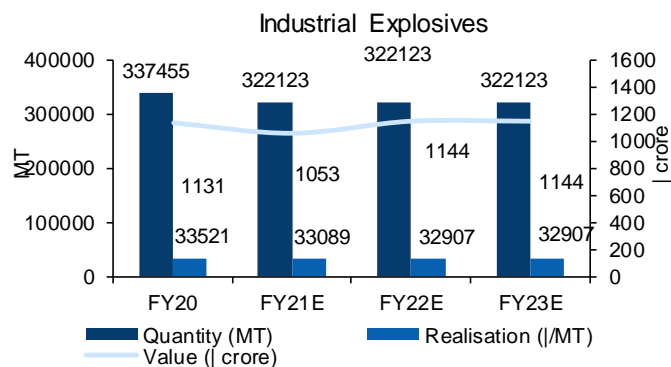
Financial story in charts

Exhibit 3: Revenue trend



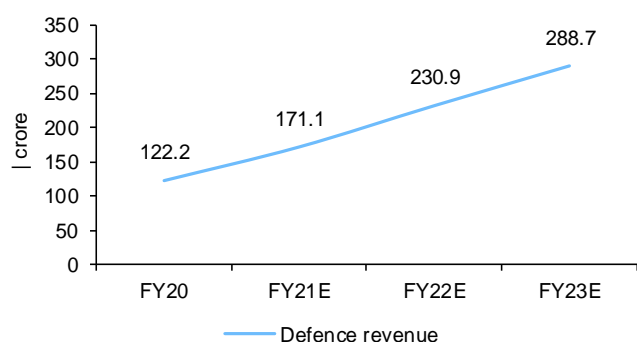
Source: Company, ICICI Direct Research

Exhibit 4: Industrial explosives growth trend



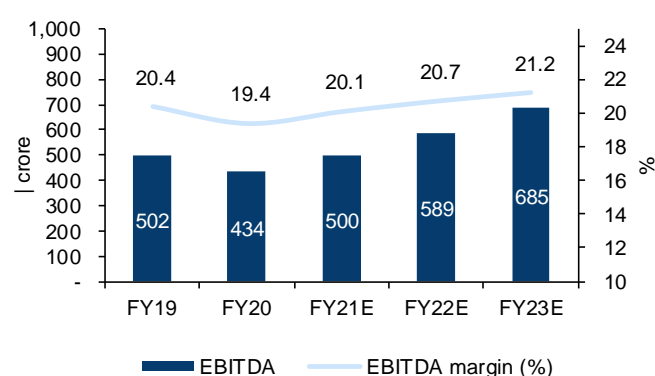
Source: Company, ICICI Direct Research

Exhibit 5: Defence segment revenue trend



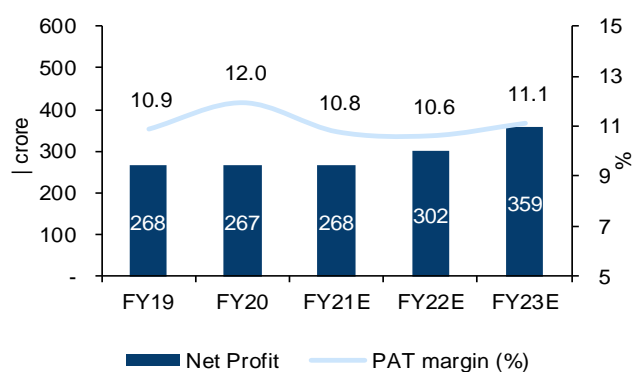
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and EBITDA margin trend



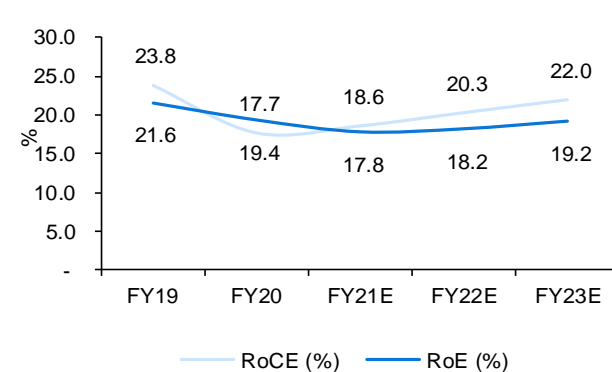
Source: Company, ICICI Direct Research

Exhibit 7: PAT and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 8: Return ratios trend



Source: Company, ICICI Direct Research

Financial Summary (Consolidated)

Exhibit 9: Profit and loss statement (₹ Crore)				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue	2,237	2,486	2,847	3,233
Growth YoY (%)		11.1	14.5	13.5
Raw Material Expenses	1,215	1,355	1,566	1,768
COGS	54.3	54.5	55.0	54.7
Employee Expenses	207	224	251	281
Other Expenses	381	408	441	498
Total Operating Expenditure	1,803	1,986	2,258	2,547
Operating Profit (EBITDA)	434	500	589	685
Growth YoY (%)		15.1	17.9	16.3
Interest	55	44	54	57
Other Income	41	25	30	40
PBDT	420	481	566	669
Depreciation	85	94	110	126
PBT after Exceptional Items	336	387	456	542
Total Tax	57	108	128	152
PAT before MI	279	279	328	390
Minority Interest	11	11	26	31
PAT	267	268	302	359
Growth YoY (%)		0.0	12.8	19.0
EPS	29.6	29.6	33	40

Source: Company, ICICI Direct Research

Exhibit 10: Cash Flow Statement (₹ Crore)				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	267.4	267.6	301.8	359.2
Add: Depreciation	84.5	94.0	110.0	126.5
Add: Interest Paid	55.0	43.6	53.8	56.5
Cash Flow before WC changes	407.0	405.2	465.6	542.2
(Increase)/Decrease in inventory	(48.2)	38.1	(19.1)	(42.2)
(Increase)/Decrease in debtors	28.7	(38.4)	(20.4)	(58.1)
(Increase)/Decrease Loan & Advances	(3.4)	3.7	(0.3)	(0.3)
(Increase)/Decrease in CA	(3.1)	15.1	(7.9)	(8.5)
Net Increase in Current Assets	13.8	18.5	(47.7)	(109.1)
Net Increase in Current Liabilities	(41.2)	12.4	29.8	48.6
Net CF from operating activities	380	436	448	482
(Purchase)/Sale of Fixed Assets	(265.0)	(210.0)	(250.0)	(250.0)
Inc / (Dec) in Deferred Tax Liability	(14.6)	-	-	-
Net CF from Investing Activities	-379	-153	-237	-247
Proceeds/(Repay) Secured Loan	105.7	138.2	(100.0)	-
Proceeds/(Repay) Unsecured Loan	44.5	(157.4)	125.0	-
(Payment) of Dividend	(76.3)	(81.4)	(72.4)	(72.4)
Interest Paid		(43.6)	(53.8)	(56.5)
Net CF from Financing Activities	25	-208	-176	-204
Net Cash flow	25.4	75.1	34.5	31.1
Cash and Cash Eq. (beginning)	91.8	117.2	192.3	226.8
Cash and Cash Equivalent (end)	117.2	192.3	226.8	257.9

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet (₹ Crore)				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	18.1	18.1	18.1	18.1
Reserve and Surplus	1,362.0	1,484.1	1,638.5	1,850.3
Total Shareholders funds	1,380.1	1,502.2	1,656.6	1,868.4
Secured Loan	261.8	400.0	300.0	300.0
Unsecured Loan	357.4	200.0	325.0	325.0
Total Debt	619.2	600.0	625.0	625.0
Deferred Tax Liability	104.9	104.9	104.9	104.9
Minority Interest	51.5	53.4	66.5	69.8
Total Liabilities	2213	2317	2510	2725
Gross Block	1,714.3	1,934.3	2,184.3	2,434.3
Accumulated Depreciation	382.1	476.0	586.0	712.5
Net Block	1,181.8	1,458.3	1,598.3	1,721.8
Capital WIP	152.2	50.0	50.0	50.0
Total Fixed Assets	1,334.0	1,508.3	1,648.3	1,771.8
Inventory	331.0	292.9	312.0	354.3
Debtors	370.3	408.7	429.0	487.1
Loans and Advances	5.7	2.0	2.3	2.6
Other Current Assets	69.8	54.7	62.6	71.1
Cash	120.1	192.3	226.8	257.9
Total Current Assets	983.5	1,037.2	1,119.4	1,259.6
Creditors	154.4	156.7	179.4	203.7
Provisions	162.1	172.3	179.4	203.7
Total Current Liabilities	319.8	332.2	362.1	410.6
Net Current Assets	663.7	704.9	757.3	849.0
Total Assets	2213	2317	2510	2725

Source: Company, ICICI Direct Research

Exhibit 12: Key Ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per Share Data				
Reported EPS	29.6	29.6	33.3	39.7
Cash EPS	38.9	40.0	45.5	53.7
BV per share	152.5	166.0	183.1	206.5
Dividend per share	7.0	7.0	9.0	8.0
Cash Per Share	42.2	52.6	64.8	78.7
Operating Ratios (%)				
EBITDA Margin	19.4	20.1	20.7	21.2
EBIT / Net Sales	15.6	16.3	16.8	17.3
PAT / Net Sales	12.0	10.8	10.6	11.1
Inventory days	54.0	43.0	40.0	40.0
Debtor days	60.4	60.0	55.0	55.0
Creditor days	25.2	23.0	23.0	23.0
Return Ratios (%)				
RoE	19.4	17.8	18.2	19.2
RoCE	17.7	18.6	20.3	22.0
RoIC	19.5	21.5	23.5	25.1
Valuation Ratios (x)				
P/E	42.1	42.1	37.3	31.4
EV / EBITDA	27.1	23.4	19.8	17.0
EV / Net Sales	5.3	4.7	4.1	3.6
Market Cap / Sales	5.0	4.5	4.0	3.5
Price to Book Value	8.2	7.5	6.8	6.0
Solvency Ratios				
Debt / EBITDA	1.4	1.2	1.1	0.9
Debt / Equity	0.4	0.4	0.4	0.3
Current Ratio	2.4	2.3	2.2	2.2
Quick Ratio	1.4	1.4	1.4	1.4

Source: Company, ICICI Direct Research

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